



HM TREASURY

Report under section 231 of the Banking Act 2009

1 October 2009 to 31 March 2010



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Presented to the House of Commons pursuant
to section 231 of the Banking Act 2009



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1

Introduction

1.1 Section 231 of the Banking Act 2009 (“the Act”) requires the Treasury to prepare reports about any arrangements entered into which involve or may require reliance on section 228(1) of the Act. Section 228(1) allows the Treasury to make payments from money provided by Parliament or, pursuant to section 228(5), from the Consolidated Fund (a) for any purpose in connection with Parts 1 to 3 of the Act; (b) in respect of, or in connection with, giving financial assistance to or in respect of a bank or other financial institution (the Secretary of State is also permitted to make such payments with the permission of the Treasury); and (c) in respect of financial assistance to the Bank of England.

1.2 This document covers the period beginning with 1 October 2009 and ending with 31 March 2010 and fulfils the requirement under section 231(2)(b) of the Act to report on successive six month periods. In accordance with section 231(4) of the Act, the report does not specify individual arrangements or identify, or enable the identification of, individual beneficiaries.

1.3 This document does not cover expenditure incurred in relation to the action taken under the Banking (Special Provisions) Act 2008. Information regarding that expenditure can be found in the HM Treasury Resource Accounts 2009-10 (HC 261) which were published in July 2010.

1.4 Further information relating to payments and commitments made by the Government which have been included in this report is already in the public domain, and details of the support provided to financial institutions and the economy is set out in a number of places:

- HM Treasury Resource Accounts 2009-10 (HC 261) and HM Treasury’s 2009-10 Main Estimate;
- Budgets and Pre-Budget Reports (which include details of the fiscal consequences of the financial stability interventions);
- The financial stability section of HM Treasury’s website contains details of agreements entered into with specific institutions and copies of relevant Ministerial statements (http://www.hm-treasury.gov.uk/fin_finstability_index.htm);
- The Report covering pre-April 2009 arrangements under section 228(1) of the Banking Act 2009 (http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/documents/digitalasset/dg_186770.pdf);
- The Report under section 231 of the Banking Act 2009 covering period 1 April 2009 to 30 September 2009 (http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/documents/digitalasset/dg_186768.pdf);
- UK Financial Investments’ website contains details of how it manages the Government’s shareholdings in various banks (<http://www.ukfi.gov.uk/>);
- The Asset Protection Agency’s website contains details of how it operates the Asset Protection Scheme (<http://www.hm-treasury.gov.uk/apa.htm>);

- The Debt Management Office's website contains details on the Credit Guarantee Scheme (http://www.dmo.gov.uk/index.aspx?page=CGS/CGS_about);
- The Bank of England's website contains information on the Asset Purchase Facility (<http://www.bankofengland.co.uk/monetarypolicy/assetpurchases.htm>) and the Special Liquidity Scheme (<http://www.bankofengland.co.uk/markets/sls/>);
- The Department for Business, Innovation and Skills (BIS) Resource Accounts 2009-10 (HC211) and BIS's Main Estimate 2009-10 contain information on the Working Capital Scheme;
- The Department for Communities and Local Government's (DCLG) Resource Accounts 2009-10 (HC86) and DCLG's Main Estimate 2009-10 contain information on the Homeowners Mortgage Support Scheme.

2

Report covering the period from 1 October 2009 to 31 March 2010

2.1 This chapter constitutes the report required to be prepared under section 231 of the Act, and provides information about arrangements entered into in the period beginning with 1 October 2009 and ending with 31 March 2010 which involve or may require reliance on section 228(1) of the Act. It excludes any income from financial sector interventions.

Table 2.A: Period from 1 October 2009 to 31 March 2010

Department	Scheme/Other commitments	New commitments £m	New utilisation or issuance £m	Cash expenditure £m
HM Treasury	1. Asset Purchase Facility	75,000	41,356	-
	2. Equity Investments	8,000	-	31,350
	3. Loans and Receivables	-	-	150

2.2 The above table discloses new arrangements and expenditure by scheme where applicable, and by type of commitment for other arrangements. 'New commitments' represent the maximum amount that the Government has committed under a scheme or arrangement, and do not represent the size of any expected future losses or cash payments. Provisions for expected losses, if any, are included in departmental Resource Accounts and Parliamentary Estimates. 'New utilisation or issuance' represents the net amount of the total facility which was used, or the net increase in the amount of guarantees which were issued, during the reporting period.

- 1 **'Asset Purchase Facility'**: In November 2009 the previous Chancellor authorised an increase in the maximum purchases under the Facility that are financed by central bank reserves up to £200 billion. The Bank of England is also authorised to purchase up to a total of £50 billion of private sector assets financed by Treasury Bills and cash management operations, therefore the maximum size of the scheme is in total £250 billion, in accordance with a Treasury Minute of 24 March 2010. At 31 March 2010 the stock of asset holdings under the Facility was £200 billion, of which, virtually all was financed by central bank reserves.
- 2 **'Equity investments'** of £31 billion represent the previous Government's purchase of shares in UK banks. This comprises ordinary shares acquired through participation in a rights issue, and both B shares and Dividend Access shares.

The new commitment of £8 billion represents the previous Government's commitment to provide additional capital in return for B shares in the event that a UK bank's Core Tier 1 capital ratio deteriorates to a certain level ('the Contingent Capital Commitment'). This commitment has a duration of five years, and this capital can only be retired early if the Financial Services Authority judges it is no longer required.

- 3 **'Loans and receivables'** represent loans which have been made or amounts which have been paid out or committed during the reporting period in the interests of protecting depositors and to support lending into the real economy.

2.3 Final agreements under the **Asset Protection Scheme** (APS) were published in December 2009. Under the scheme, in return for a fee, the Treasury provides protection against a proportion of future credit losses on a defined pool of assets. The Government protection covers 90 per cent of the credit losses exceeding the amounts of an agreed 'first loss', with the institution retaining the residual 10 per cent exposure. There has been no new commitment or increase in utilisation of the APS, and no cash expenditure during the reporting period. The maximum potential liability to HM Treasury was estimated to be £154 billion at 31 March 2010. The scheme is operated by the Treasury's Asset Protection Agency.

2.4 The Department for Communities and Local Government operates the **Homeowners Mortgage Support Scheme**. In the period the maximum potential liabilities under the scheme were unchanged at £500 million. Issuance of guarantees in the reporting period was under £1 million, and the total guarantees issued at 31 March 2010 were also under £1 million.

2.5 There is nothing to report for the **Special Liquidity Scheme** (SLS) or the **Working Capital Scheme** (WCS) as, in each of these schemes, utilisation and maximum total commitment had either decreased (SLS) or was static (WCS) at the period end, and neither of them incurred any cash expenditure. For the **Credit Guarantee Scheme** (CGS) there were some fluctuations in issuance during the reporting period, but at 31 March 2010, net issuance and the maximum total commitment had decreased. There was no cash expenditure in the reporting period under the CGS. Each of these schemes is now closed for new utilisation:-

- the SLS closed to new drawdowns in January 2009. The scheme is due to run until January 2012.
- the CGS was closed to new issuance on 28 February 2010. The scheme is due to run until April 2014.
- the December 2009 Pre-Budget report announced that the WCS would not be extending any further guarantees. The scheme is due to run until March 2011.

Additional information on these schemes is in Annex A and in the published information referred to therein.



Information on government financial assistance schemes

HM Treasury

Asset Purchase Facility

The Asset Purchase Facility (APF) is designed to enable the Bank of England to help improve the operation of credit markets through the purchase of corporate assets such as corporate bonds and commercial paper. This will improve liquidity, reduce funding costs and increase the availability of credit by stimulating the issuance of further instruments in those markets. The APF has also been used by the Bank of England to implement monetary policy through the purchase of gilts and other assets financed by the issuance of central bank reserves. HM Treasury has indemnified the Bank of England and the fund specially created by the Bank to implement the Facility from any losses arising out of or in connection with the Facility. Further information can be found at <http://www.bankofengland.co.uk/monetarypolicy/assetpurchases.htm>

Asset Protection Scheme

The Asset Protection Scheme is designed to protect financial institutions against exposure to exceptional future credit losses on certain portfolios of assets, helping banks to rebuild and restructure their investments and increase lending in the economy. Full details of final agreements under the scheme were published on 7 December 2009. The scheme is operated by the Asset Protection Agency which is an Executive Agency of HM Treasury. Further information can be found at <http://www.hm-treasury.gov.uk/apa.htm>

Special Liquidity Scheme

The Special Liquidity Scheme provides liquidity by allowing institutions to swap illiquid assets for Treasury Bills, which are more easily converted into cash, minimising the system-wide risks of illiquidity to financial stability. The scheme has been closed to new drawdowns since January 2009 but will run until January 2012. Further information can be found at <http://www.bankofengland.co.uk/markets/sls/>

Credit Guarantee Scheme

The Credit Guarantee Scheme was designed to help restore confidence by making available, to eligible institutions, a government guarantee of new debt issuance of up to three years' maturity for a fee. The drawdown window for new debt issuance under the scheme closed on 28 February 2010. The scheme is due to run until April 2014. Further information about the scheme can be found on the Debt Management Office's website http://www.dmo.gov.uk/index.aspx?page=CGS/CGS_about

Department for Business, Innovation & Skills

Working Capital Scheme

Through the Working Capital Scheme (WCS), the Government provides 50 per cent guarantees to banks against portfolios of loans in order to release capital for new lending to small and mid-

sized businesses. The 2009 Pre-Budget Report announced that as similar Government support is now available through the broader Asset Protection Scheme, new guarantees will no longer be available under the WCS although existing portfolio guarantees will remain until March 2011.

Department for Communities and Local Government

Homeowners Mortgage Support Scheme

The Homeowners Mortgage Support (HMS) Scheme enables eligible borrowers who suffer a temporary loss of income to defer a percentage of their mortgage interest payments for up to two years to help them get back on track with their finances. If repossession cannot be avoided, lenders can claim on the HMS guarantee for up to 80 per cent of the deferred interest. Further information can be found at

<http://webarchive.nationalarchives.gov.uk/+/http://www.communities.gov.uk/housing/buyingselling/mortgagesupportscheme/>

HM Treasury contacts

This document can be found in full on our website at:
hm-treasury.gov.uk

If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: public.enquiries@hm-treasury.gov.uk

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